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## TARIFF REVISION AND FOREIGN MARKETS.

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This paper deals primarily with the relation between our tariff and the foreign markets, incidentally considering our command of raw materials and the position of the domestic consumer. Under "foreign markets" I understand not only markets for the sale, but also markets for the purchase of goods, and under domestic consumer not only the final consumer, but also the consumer of raw and half finished commodities.

Statistics attest the remarkable growth of our foreign commerce; but a close study of our exports and imports reveals the fact that the development, however phenomenal, has been but incidental to the marvelous expansion of our domestic trade and to the exploitation of our mines, forests, and fields. Our exports consist mostly of breadstuffs and foodstuffs, either in crude condition or partly manufactured, and of raw and semi-finished materials of commerce; our imports, whether intended for further use in manufactures, or whether ready for immediate consumption, are largely goods to supply the needs and the wants of the well-to-do and the rich. This commerce grew up notwithstanding the many objectionable features of our present tariff, and without any serious effort to further it on the part of the people in the United States. The empty storehouses of Europe were compelled to replenish themselves from our wheat fields, and their mills and factories sought the products of our cotton plantations and our copper mines because of the large profits on their original investments.

The United States, the greatest manufacturing nation

in the world, supplies at present but a small fraction (not more than  $12\frac{1}{2}$  per cent) of manufactures entering into international trade. Taking the last fiscal year (1908), we find that out of a total value of exports equal to \$1,834,786,000, we exported but \$488, 458,000 of manufactured articles. This output of manufactures abroad represented largely the overflow of goods intended for home consumption; they were offered in the foreign markets at low prices because of the lack of demand at home.

Such conditions cannot last. Our export of breadstuffs and foodstuffs will necessarily decrease because of the rapidly growing population in the Union, and because of the fact that the area available for tillage, barring the land that is being opened by artificial irrigation, has been occupied. On the other hand, our industrial development has assumed such proportions that a part of the capital, the energy, and the laboring forces of the land must be directed toward production of goods for export.

We can occasionally dump the foreign markets and justify it on the ground that it relieves the pressure of overproduction at home. But dumping cannot be made a permanent feature of our industry and commerce. Foreign countries will not permit dumping because of its effect upon their national industries, and our own people will not submit to it without protest. One of the essential features of dumping is sales abroad at lower prices than at home; however patient and uncomplaining our consumers are, they will not tolerate indefinitely such discrimination in favor of foreigners.

The paramount question arises, whether or not we have manufacturers who can produce at such cost as to be able to sell at home and abroad as cheaply as their foreign competitors. If not, our industrial development will receive a severe check. We can protect our manufacturers at

home, but unless other reliable and expanding markets, in addition to our own, are found for the increasing output of our mills and factories, we shall every year be in greater danger of overproduction and stagnation, and periods of depression and readjustment will be more frequent and more lasting. It is true that our domestic market, considering the consuming capacity of our population, is the largest in the world. But our productive activity in many directions has outgrown this market. What we need is a solid and broad foundation which the command over the world's markets alone can give us.

Are we to believe those who clamor that high protective duties on every commodity produced in this country are a necessary requisite of our industrial progress, nay of our very existence as a prosperous nation? If we do, then we may as well give up our search for foreign markets; we may throw into the waste-basket all the advice of our consuls and other representatives of the Department of Commerce and Labor, who try to impress us with the necessity for proper packing and advertising, for studying the peculiar needs and tastes of the foreigners, etc. Of what value is this advice, if it is true, that the English and the German manufacturers produce with less cost than we? How can we compete with them in their own and in the neutral markets of Asia, Africa, and South America, if we need the high wall of protection at home?

Is it not an insult to the intelligence of the American consumer, this printing of special, of daily, and of monthly reports, telling manufacturers how to gain foreign trade, when at the same time it is contended that without high protective duties our industries are doomed to ruin or the wages of our laborers threatened with such sharp reductions as to degrade the standard of living?

What this standard of living is in many an industrial community in the United States has been brought out so forcefully in our discussion of "Modern Industry and Family Life", that I need not dwell on the subject.

Fortunately for the country, many of the existing duties can be reduced and even removed without imperilling the position of our laborers and of our capitalists. A certain dislocation of industry will necessarily take place, since the larger the amount of commodities exported and the greater their value the greater also will be the value of imports; but with a tariff properly constructed, a tariff which is not an outcome of theories, suppositions, likes, dislikes, interests of individual manufacturers and congressmen, a tariff which is based upon a careful study of facts and a grasp of conditions, this dislocation will be easily adjusted. This dislocation is certainly not to be apprehended as much as the condition into which we are drifting with our single, straight-out, highly protective tariff, which, it is true, shuts out the goods of other countries, but which at the same time shuts in our own products.

Many people are willing to concede that because of our "surplus" we need access to foreign markets, and they advocate the extension of our foreign trade; but when it is brought home to them that selling without buying is impossible, and where it is possible is undesirable, they raise objections to the surrender of even the smallest part of the domestic market. The domestic consumer appears to be a precious heirloom of our manufacturers.

Considering some of the changes which should be introduced into our tariff, we may say that they should be of such nature as to facilitate the export of highly finished articles and to permit the import of raw materials and of all commodities for which we are compelled to pay

monopoly prices. The opportunity to import freely raw materials will be of great value to us for many reasons. It will enable us to draw upon the vast resources of eastern Asia, Central and South America, and Canada, retarding the time of the exhaustion of our own natural resources and decreasing the cost of materials used in factories. As the matter stands at present, it seems as if our government, by placing duties on iron ore, coal, lumber, etc., encourages their ruthless exploitation. Mr. Pierce, in his book *The Tariff and the Trusts*, says justly: "The Dominion of Canada has an unbroken stretch of white pine and spruce extending from the east of Labrador to the Pacific Ocean. But our great statesmen stimulate the destruction of the American forests by protection of lumber and wood-pulp and hasten the day when the last white pine tree shall be cut and the last spruce tree be ground into pulp."

And the Canadian timber is not the only timber we could import but for the "protective" duty. Mexico, Central American and South American Republics have abundant supplies. Mr. Pierce also most wisely calls our attention to another fact. While the industries of New England are languishing because of lack of sufficient deposits of iron and coal, close by in Nova Scotia and other Canadian provinces are vast supplies of both iron and coal easily accessible from the seashore.

Why do we exclude these materials? According to the findings of the national conservation commission, the known supplies of high-grade ores in the United States, at the present rate of consumption, cannot be expected to last more than thirty or forty years, and our available and easily accessible supplies of coal will be so depleted as to approach exhaustion before the middle of the next century.

There may be no cause for alarm, but that the question is of more than academic interest is manifest from the declaration of Mr. Gary, chairman of the directors of the United States Steel Corporation, before the House ways and means committee. In his testimony, he said that the cost of producing pig iron has been increasing all the time, because of the necessity to resort to poorer and poorer qualities of ores. Now, if this is true, why not reduce our duties on iron ore and other raw materials? These reductions may be used to further our commercial interests with the neighbors to the north and to the south of us.

A freer importation of raw materials will also bring to many of our manufacturers of finished articles a greater variety of commodities to choose from. At present, they must necessarily use domestic products and pay high prices for them. I refer particularly to those manufacturers who are not in the combines, who do not belong in the class of large self-contained concerns and who consequently have no control over the sources of supply of raw materials.

That the interests of these dependent manufacturers are hindered has been admitted, in the case of the iron and steel industry, by Mr. Gary, who stated that the United States Steel Corporation can produce iron and steel cheaper than most of its competitors because the corporation has a decided advantage in the quality and quantity of ore at its disposal; other advantages being the cheapness of equipment and the control over the lines of transportation.

Whether the reduction of duties on raw and semi-manufactured materials of commerce alone will benefit the final consumer is not within the domain of this paper to discuss; we may state that should the control over the

elaborative processes be in the hands of a monopoly, the sole beneficiary of reduced duties will be the monopolist manufacturer. However, the manufacturing of finished articles with an open market for obtaining supplies of raw materials does not lend itself easily to monopoly, and there is hardly a doubt that the reduction of duties on raw materials will lead to a reduction of prices on finished commodities.

One of the greatest drawbacks of our existing tariff is the uncertainty of many of its provisions, which frequently leave the importer in darkness as to the amount of duties to be paid. If the intention of our legislators was to check the development of our foreign trade relations far in excess of even the highest imaginable duties, then they certainly deserve all the praise that one can give them for having attained their object. Nothing hampers modern commerce as much as uncertainty. Our tariff classification based upon the manufacturing achievements of a generation ago, the many decisions of our appraisers and our courts (exceeding 300,000), the bewilderingly incongruous array of commodities gathered under one rate of duty, commodities that have nothing in common with each other, except the fact that they came under the vigilant eyes of our customs house appraisers, all tend to confusion.

We may ask with Senator Beveridge,<sup>1</sup>—"Is there any logic in classing buttons and stoves together? Is there any connection between carriages and dress trimmings? Why should cannon for war and crosses for churches be put in the same class?" Yet all these and many others are in the same classification and pay the same duty.

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<sup>1</sup> See his article on "Permanent Tariff Commission" in the *Annals of the American Academy of Polit. and Soc. Science* for Sept., 1908.



Mr. Harold Bolce, in his book on *The New Internationalism*, wonders why a mare's colt is classified as household furniture, soy beans of Japan as sweetmeats, and frogs' legs as poultry. In the criticism of the present classification I should draw the line at frogs' legs; in my opinion, the appraiser who placed frogs' legs in the same class as poultry knew his business. He has shown us the way to a proper, scientific, up-to-date, business-like classification, a classification which considers rather the use to which the article is subjected than the material out of which it is made or the kingdom (vegetable, animal, or mineral) to which it belongs.

A scientific tariff classification which would do away with the necessity for resorting to guesses because of the ambiguity of its statements or because of the great latitude that it leaves for its interpretation, a classification which would decrease the number of contests between the government and the importers, costing both parties large sums of money and creating a great deal of bad blood, a correct classification, which would provide carefully drawn schedules, clearly differentiating between various commodities and permitting an accurate affixing of duty to each commodity, such a classification would help our foreign trade immensely. At present, our import trade is confused and uncertain, and an uncertain import trade has necessarily a disturbing effect upon exports.

The drafting of a proper classification requires time, intelligence, and knowledge; it calls for investigations by experts, for a minute study of every phase of every industry that enters into international trade, for a searching inquiry into the bearings of our own and of the tariffs of other countries upon production and distribution of commodities.

A proper classification will permit us to change most of our *ad valorem* and compound duties for specific ones, without subjecting coarser and cheaper grades to a proportionally higher taxation than finer, more expensive articles, thus doing away with the only valid objection against specific duties. The change will bring greater simplicity into our relation with importers and greater speed into our handling of goods at the frontier; it will put a stop to the temptation of undervaluing merchandise and will make unnecessary a number of "unjustifiable practices that have grown up in our customs administration, notably the practice of determining values of imports upon detective reports, never disclosed to persons whose interests are affected."<sup>2</sup>

The temporary agreement between the United States and Germany, the provisions of which have since been extended to some other countries, introduced better methods in our dealings with importers. Our customs regulations have been so changed as to discontinue the system of obtaining secret statements from informers, discharged employees, and business rivals. But this agreement defines "market value" of goods sold in the home market only in limited quantities somewhat too liberally, declaring, as it does, that the export price is the market value of such goods. Although not in sympathy with either the principles or the methods of the American Protective Tariff League, I must admit that their organ, *American Economist*, has been somewhat justified in its criticism of the agreement. There is more likelihood for undervaluation under this agreement than under the former provisions of the Customs Administration act.

It seems to me that the time is ripe to do away with our complicated and expensive machinery of customs

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<sup>2</sup> See the message of the President to Congress sent on December 3, 1907.

administration. This machinery has been called into existence chiefly because of improper classification in our tariff and because of *ad valorem* duties attached to uncertain and indefinite schedules. The adoption of specific duties under a definite, scientific, and business-like tariff would solve many of our customs administrative problems and would lead to a simplification of the service.

The Vienna Industrial Club in its denunciation of our tariff is not so far away from the truth when it states that we "have scraped together a tariff made up of a lot of separate decrees modeled with the view to prevent importation." Undoubtedly, in many instances the real legislators and fixers of duties in our tariff were not the congressmen who passed the law and who are so jealous of their legislative prerogatives, but the appraisers and the circuit courts who made decisions.

As to the form of the tariff to be adopted, it is, in my opinion, not so important, whether we have a single or a double set of duties, as whether we have an honest reduction of these duties or not. A maximum and minimum tariff with excessive and exorbitant rates in the minimum schedules, and retaliatory prohibitive in the maximum, is a much more unsatisfactory device for the extension of foreign trade than a single tariff based upon the principle of honest protection where protection is needed for the good of the country and upon the principle of freedom of intercourse where this freedom of intercourse may bring the greatest amount of benefit to the greatest number of people.

The advantages and disadvantages of the single and dual tariff systems have been brought out so clearly in the preceding papers that I need not consider the subject here. I may add only, that there is, to my mind, no greater inherent value in a dual than in a single tariff. If the

adoption of the first is being urged, it is simply because of the fact that most of our commercial friends and rivals have adopted the dual tariff system and regulate their relations accordingly; it is a matter of expediency for us to adopt the same system.

In conclusion, I should say that, omitting the moral, the social, and the political aspects of the problem, our present agitation for tariff revision may be traced to two causes: (1) high monopolistic prices demanded of our consumers and the consequently natural desire to buy goods from abroad; (2) necessity for expanding our foreign trade, particularly in the direction of the sale of finished commodities.

We have heard very little from our consumer, especially from the great mass of our population which lives from hand to mouth and whose purchasing power is curtailed because of the high prices charged for the necessities of life; on the other hand, we have heard a great deal from individual manufacturers and from our manufacturing and commercial organizations, which are looking for foreign buyers because they cannot sell at home all they produce. The interests of both parties are weighty, and upon their proper adjustment depends our future economic greatness. Both interests call for the revision of the tariff, and both must be considered when shaping our tariff policy. We can solve the problem of monopolistic prices by reducing or removing our duties, and the problem of the foreign markets by entering into reciprocal agreements with other countries. A mere reduction or removal of duties would mean an influx of foreign goods into the United States with perhaps no corresponding outlet for our commodities abroad; it may benefit the consumer but its immediate effect upon many producers might be disastrous. A conclusion of reciprocity treaties

alone may benefit certain manufacturing interests without bringing any relief to consumers; in fact, we may conceive a policy of commercial agreements which will leave our consumers in a worse position than they are in at present, a policy which will increase the manufacturers' command over raw materials and generators of power, which will facilitate their sales abroad and which will make them even greater masters of the situation than they are now. Being assured of foreign markets, they will raise the price at home, and the consumers will have either to pay this price or to watch with justifiable indignation cargo-laden ships leaving our ports, taking away the goods that might have brought comfort and happiness into their own homes.

Will our legislators be able to solve the problems confronting them? Admitting even that the majority of them can raise themselves above sectional interests and party politics and can face the issue squarely, have they a sufficient amount of knowledge required for the work?